

The MORTGAGE BANKER

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British Consul in Chicago and Dr. Gustav Stolper Speak at Chicago Clinic; Former Was Interned by Japs in Shanghai

TO SPEAK ON TAXES FROM MORTGAGE MAN VIEWPOINT

The general trend of federal taxation, the Victory tax, the Social Security tax, things MBA members ought to know about the recently-enacted tax bill, what we may find in the next big tax measure and important features in the present law that affect mortgage men as business men—all these points and more will be covered by Lorin A. Torrey, head of the tax department of Ernst & Ernst, certified public accountants. This is a subject not previously covered in an MBA Clinic and we believe it will be an important and timely contribution to the program.

Mr. Torrey is a graduate of Northwestern University and the Loyola University Law School. He is a member of the Illinois Bar and lectures extensively on business law and taxation. An open forum discussion will follow his address. Members are invited to present any tax question at this discussion.

CLINIC FEE IS THE SAME

The registration fee at the Chicago Clinic will be the same as last year and at the New York Clinic in January—\$10. Tickets for the dinner for all attending will be on sale at the registration desk. There will be four sessions, two in the morning and two in the afternoon. Because so many members have expressed a preference for the "school room" seating arrangement of tables and chairs, it will again be used at the conference.

Now that MBA's first 1943 "War and Post War" Clinic in New York has been successfully concluded, plans for the second Clinic in Chicago at The Drake Hotel February 26 and 27 are being rapidly completed. Here are some of the speakers you will hear:

H. H. Thomas
British Consul in Chicago
Address: "Shanghai Since 1937"

John B. Blandford, Jr.
Administrator, National Housing Agency
Address: "War Housing in 1943"

Dr. Louis Wirth
Professor of Sociology,
University of Chicago

Dr. Gustav Stolper
Economist, author and lecturer

Abner H. Ferguson
FHA Commissioner
Address: "The Outlook for FHA"

Charles A. Mullenix
MBA President

Lorin A. Torrey
Tax Specialist, Ernst & Ernst

Arthur F. Schubert
Illinois Association of Certified
Real Estate Appraisers

John C. Thompson
Clinic Moderator
Member, Board of Governors

Mr. Thomas is fairly new to Chicago, having recently arrived from the Far East where he was consul in

Shanghai. He has just been released from "protective custody" by the Japanese.

Dr. Wirth is one of the best-known and highly-regarded authorities on city planning and social trends. Dr. Stolper is already well-known to many members and is the subject of another note in this issue.

Mr. Ferguson, of course, is well-known to all members. The last time we had the privilege of presenting him at a meeting was the 1938 convention when he was FHA general counsel and spoke on foreclosure laws. Mr. Blandford is of course equally well known to all members. We last had the privilege of hearing him at the Chicago Conference in 1942. He will speak on the broad general aspects of war housing and related matters.

President Mullenix will address the Chicago Clinic on a number of matters of particular importance to mortgage lenders at this time.

Mr. Torrey and Mr. Schubert and their topics are the subjects of more exhaustive comments elsewhere in this issue.

We think the Chicago program will have a more timely appeal than almost any yet arranged. Mr. Thomas and Dr. Stolper will have something important to say from the standpoint of the war and international relations. Dr. Wirth is speaking on a subject that will grow in importance with all of us and both Mr. Torrey and Mr. Schubert are handling specialized subjects not previously covered in our meetings.

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In addition to these, of course, there will be the speakers on the panel discussion programs. These are being selected in cooperation with the presidents of our Cleveland, Detroit, Chicago, St. Louis and Milwaukee chapters. These chapters, the five largest in the territory embraced by this regional meeting, will cooperate with MBA in sponsoring the Clinic.

One of the special features on the panel discussion, however, will be an address by Stephen G. Cohn, Dovenmuehle, Inc., Chicago, who will speak on effective public relations for mortgage houses during the war period. He will review advertising and publicity policies with particular emphasis on cultivating and maintaining harmonious relations with borrowers.

VARIED SUBJECTS UP FOR CHICAGO CLINIC REVIEW

The Chicago Clinic will be a full-dress review of every topic and subject of a wartime nature of interest to mortgage lenders. Here are a number of the specific subjects now being assigned:

Present-day policies regarding prepayment privileges in existing and new mortgages and other servicing problems.

The effect of rent control on the desirability of income property loans.

What has been the experience of mortgage lenders with existing loans under the Soldiers' and Sailors' Civil Relief Act?

Administering a mortgage business to successfully cope with personnel problems created by the war.

What are the best ways and means of reducing accounting and processing costs for new mortgages?

Portfolio raiding today and a review of the FHA refinancing certificates.

What type of rental units can we build and finance in the post war era?

These are a few we know lenders are particularly eager to hear fully discussed by experienced mortgage bankers.

In addition, of course, many post war problems will be competently reviewed by our speakers.

Dr. Stolper, Former Member of Reichstag, Has Been Accurate Judge of War Trend

The return engagement of Dr. Gustav Stolper at our second 1943 Clinic probably holds an even greater interest for those members who heard him on our Western and Southern tour last year than it did on his first appearance. The reason, of course, is that Dr. Stolper analyzed the war and international affairs rather precisely in those addresses and made certain predictions of future events—many of which have occurred just as he declared they would. A few days ago, John W. Love in his *Cleveland Press* column, "Today's Business," recalled Dr. Stolper's observation that the war with Germany might end in the Spring or Summer of 1943 but that the war with Japan would run longer. At that time few would have agreed; yet today many are of the same general opinion. What Dr. Stolper has

to say now will be of great interest to every member anxious for a peek into the future.

Dr. Stolper is a former member of the German Reichstag from Hamburg and was head of the research department of the Austrian General Commissariat in the last war. He was founder and editor of *Der Deutsche Volkswirt* (on January 25, 1943, *Time* referred to this paper as the "most authoritative German economics journal.") and was Berlin correspondent for the *London Economist*. He came to this country in 1933 and became a citizen. Since he addressed our meetings last year he has spoken before many national organizations. He is the author of "German Economy 1870-1940," "This Age of Fable" and numerous magazine articles.

What Sort of Rental Units Can We Build in Post War to Show Investment Return?

The subject to be covered by Arthur F. Schubert, Cooper, Kanaley & Co., Chicago, and an active member of the Illinois Association of Certified Real Estate Appraisers, is one which the Association feels will have particular interest for MBA members who are doing some serious and practical thinking about the post war period. Specifically it is *what type of rental units can we build and finance in the post war area?* But there is more to it than that.

The subject was suggested by George H. Dovenmuehle, Chicago, MBA gov-

ernor, who recently asked Mr. Schubert's Association to study the question of what rent we will have to get on new apartment buildings with an average of three rooms and another of four to secure an adequate investment return. He himself feels the survey will probably reveal that it will be necessary to get in Chicago between \$15 and \$18 per room, that we won't be able to make a great many changes in apartment house construction after the war and, further, that most innovations will come in the home and row-house field. "Row" is hardly the word, he thinks, because it brings to mind the row houses of Eastern cities and he believes post war architects will be able to build better buildings, probably with a garden for every family.

He also asked this group to show the percentage of the economic to the physical cost at various rentals under this so-called profitable figure.

This gives you some of the background of the thinking leading to Mr. Schubert's subject and his place on our program. The rest of it will be found in his address which should be an important one.

Warning!

It is imperative that you make rail and hotel reservations for the Chicago Clinic early. Railroad men in Chicago have cautioned us to advise members that they should purchase round trip tickets and make Pullman reservations for the return trip at the same time they secure accommodations coming to Chicago. Act today to insure getting the kind of accommodations you want.

BUY WAR BONDS

The Outlook for Prepayments and How to Handle Them in a Sensible Manner

By FRANK H. JACKSON

WITH our new volume rapidly decreasing, the two major problems of our business in 1943, and perhaps for the duration, appear to be raiding and prepayments.

Prepayment divides itself first into the policy of the mortgagee at the time the loan is negotiated, and, secondly, his attitude toward prepayments tendered after the loan is on the books.

It is agreed that the borrower is entitled to reasonable prepayment privileges, but acquisition competition should not enforce the granting of terms far in excess of the borrower's pocketbook. Such privileges should provide a method for the borrower anticipating and shortening the term of his mortgage by the use of his savings, or permit lump sum prepayments known and explained to the lender prior to settlement.

There is no equity, however, in writing a mortgage at such liberal terms that the mortgagee becomes the "shock absorber" for every tiny fluctuation of the borrower's finances. Keep in mind that "Within" mortgages, or mortgages with too liberal prepayment terms, have poor resale value.

FHA mortgages provide for prepayment at any time, with a 1 per cent surrender charge, which is now waived if the prepayments are made from savings, or from the sale of the property. What adjustment should be made by an FHA servicing broker with his principal in cases where FHA loans are paid off within a year? The principal generally requires that the servicing agent submit a written explanation of the payoff. Saving funds, being primarily organized for thrift, will generally accept any prepayment or payment in full. Federals require 90 per cent prepayment of interest as surrender charge.

In conventional loans, the older mortgages are generally silent on the matter of prepayment and cannot be paid off until maturity.

In the more recent conventional

mortgages, clauses are usually inserted, permitting prepayment in full, either with or without a surrender charge, after three or five years; or, a more universal method of permitting voluntary payment equal to 15 per cent or 20 per cent of the face of the mortgage in any one year, in addition to the regular monthly payment, but with such privilege not being accumulative.

The full prepayment privilege clause after three or five years should be avoided as, after a short period of time, your whole portfolio is subject to prepayment, or even worse, to "raiding."

A clause permitting 15 per cent to 20 per cent with preference to the 15 per cent limit, is the most equitable method, both for mortgagor and mortgagee, and gives the former an "accordion-type" mortgage which cannot be called for the full fifteen or twenty years, but which can be liquidated (by

taking advantage of the voluntary payments each year) in a period of five years.

In carrying out the mechanics of the latter clause, it is suggested that the calendar year be used instead of the mortgage year. Voluntary payments should be used to hasten the maturity date of the mortgage, not to readjust the amount of the monthly payments. Endeavor to educate your borrowers to make a full 15 per cent payment at one time.

We are all receiving numerous requests for prepayment, even where such clauses are not contained in the mortgage, and in making a decision on whether or not such payments should be accepted, it should be pointed out that there is a real danger in refusing them, as there is always a possibility of the same borrower being delinquent two or three years from now and reminding you of your previous refusal. If full prepayments must be accepted, they should be graciously handled, as a happy former borrower is a good advertisement.

Prepayments should not be accepted on income properties unless there is insufficient equity.

Who's Who in this Special Issue About How to Conduct a Wartime Mortgage Business

Except for the announcements about the February Clinic in Chicago and the President's report, this issue is all ideas, suggestions and opinions on how to conduct a mortgage business in the war period.

Frank H. Jackson is manager of the mortgage loan division of The Travelers Insurance Company in Philadelphia. His article is a complete review of what seems to be about all there is to say on the subject of prepayments.

Robert L. Irving is vice president, W. A. Clarke Mortgage Co., Philadelphia, and was the author of the first series of MBA Washington Letters which won wide acclaim. His statements about portfolio raiding and the FHA refinancing certificates are very definite and deserve careful study.

Milton T. MacDonald is executive vice president, The Trust Company of New Jersey, Jersey City, and his article tells better than we have ever heard it said before just what FHA has meant to commercial banking.

Harry A. Taylor is president, Frank H. Taylor & Son, East Orange, N. J., vice president, National Association of Real Estate Boards and past president of the New Jersey association. He is no doubt reflecting the views of many of us who feel that the provisions of rent control have been pretty severe on owners of income property. He advocates an increase of at least 5 per cent to provide for upkeep costs which have greatly advanced.

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There are a number of cases where partial or full repayments ARE almost a necessity, and in most cases to the advantage of the mortgagee:

1. Soldier and sailor cases (no surrender charge),
2. Trouble items (with surrender charge),
3. Death of mortgagor (with or without surrender charge),
4. Tendering of a partial prepayment early in the life of a mortgage which would hasten its reduction from a two-thirds loan. This should only be taken (with or without a surrender charge) with the definite understanding that it is no precedent for the future,
5. Where outstanding balance is below \$1,000 (with surrender charge).

In dealing with borrowers offering a prepayment not provided for under the terms of the mortgage, explain that while the sum of money involved in this particular case might be small, if multiplied by many cases, the resulting sum is very large and highly important to the mortgagee. The terms of the contract and their advantage to both parties should be explained, and the borrower should be asked his reaction if, in violation of the terms of the contract, you had called for all or part repayment. In those cases where the borrower wants to pay in excess of the amount permitted, suggest that he deposit the excess with a federal savings and loan association until the next anniversary or anniversaries when the prepayment privileges come due.

The most difficult decision in the matter of repayment develops from that of resale of properties. The mortgagee, in such cases, must be willing to substitute borrowers and to increase or to change the terms of the mortgage if the equity of the real estate permits. If prepayment is taken, a surrender charge should be made, but it will be found that while mortgagors are very glad to make arrangements to pay surrender charge, they complain bitterly after the transaction has been completed. Arrangements can also be made to have the selling broker agree to replace the mortgage being paid off, but unfortunately performance is often hard to secure under this plan; however, it can be safeguarded to some extent by collecting a surrender charge which is re-

funded when the new mortgage has been produced.

One Philadelphia FHA mortgagee publishes a booklet explaining to his borrowers that a service is maintained for their benefit, and suggesting that the mortgagee be consulted before entering into an agreement of sale for the property.

We can look forward to at least 15 per cent prepayment in 1943, and unless the list is carefully guarded, the payoff will be even greater. The vicious part of repayment is that your better loans suffer, and you are left with a residue of slow loans, usually none too well secured.

What To Do About Portfolio Raiding? Will FHA Certificates Prevent It?

By ROBERT L. IRVING

WE shall be fortunate this year if we can maintain our portfolios or servicing accounts against the inroads of regular amortization and prepayments from savings. With very little new business arising from new construction or from sales of existing properties some companies are now frankly embarking on a portfolio raiding program.

Short-sightedness tends to reproduce itself and multiply. Many MBA members will remember that Claude Benner described general portfolio raiding, without new construction, as "taking in each other's washing."

Uncontrolled portfolio raiding is unsound policy. Much labor and expense is wasted in securing no real improvement. If this point of view is sound in peace time, how can we justify unnecessary switching and useless competition when this activity uses scarce manpower, scarce transportation, scarce business machines,—all vitally needed for the war effort?

Many of us have hoped that at least in FHA we might have a useful tool in the refinancing clause of the National Housing Act, known as the Spence Amendment, and which reads as follows: "No mortgage which in whole or in part refinances a then existing mortgage shall be insured under this section unless the mortgagor files with the application his certificate to the Administrator that prior to the making of the application the mortgagor applied to the holder of such existing mortgage for such refinancing and that, after reason-

able opportunity, such holder failed or refused to make a loan of a like amount and on as favorable terms as those of the loan secured by the mortgage offered for insurance after taking into account amortization provisions, commission, interest rate, mortgage insurance premium, and costs to the mortgagor for legal services, appraisal fees, title expenses, and similar charges."

Just as times change, I thought there might be some consideration of changed circumstances by FHA's legal division, ably directed by B. C. Bovard. My theory consisted of what seemed to be a logically sound case. In brief, it was as follows:

1. The Spence Amendment was designed and adopted in order to discourage portfolio raiding.

2. The words "undersigned has applied" contemplate a definite application by the mortgagor to the holder of the existing mortgage.

3. Just as it is customary for a mortgagor to apply for a loan in a definite amount, the certificate requires an application for a definite amount and terms when it states "To make a loan of like amount and on as reasonable terms."

4. In order for an ordinary mortgagor to make an intelligent application, he must disclose the offer of the competing or raiding mortgagee; and, furthermore, he cannot properly sign the certificate if the holder of the existing mortgage is willing to meet the competing offer.

I must confess that this argument

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did not impress the FHA general counsel. He has been kind enough to listen to all the points of this so-called argument, and then has proceeded to break it down until nothing seems to remain.

Bovard's position is about as follows:

1. The Spence Amendment was adopted for the purpose of making certain that the mortgagor is getting a better deal from the new, or, if you wish, the "raiding" mortgagee. In other words, the mortgagor who attempts to refinance a conventional or building and loan mortgage cannot secure FHA financing unless the FHA deal is more attractive than the best amount and terms available from the existing mortgagee. It is true that the opponents of FHA before Congressional committees maintained that their loans "were just as good," and that, therefore, FHA financing was not needed. The Spence Amendment was adopted as an answer to that objection.

2. Certainly the law does not contemplate a procedure where a mortgagor must go to several mortgage lenders before going to his own institution. Procedural difficulties would be certain to arise. Suppose that the mortgagor must first go to one or more competing institutions, how could such an institution give a definite answer without an FHA commitment? Could holders of existing mortgages or the FHA tolerate several FHA applications involving a mortgage already insured? Certainly the mortgagor should not be permitted to apply to a second institution unless he can state that his own mortgagee has refused to make this loan.

3. Therefore, the acceptable procedure under the law is an open application to the holder of the existing mortgage for his "best terms." The holder should then disclose his "best terms" and the mortgagor should try to beat them. If he can find another mortgagee willing to beat the "best terms," then the mortgagor may rightfully sign the certificate. Furthermore, there is no requirement that the mortgagor return to the original mortgagee.

These are hard words for mortgagees who hoped, as I did, that the FHA refinancing certificate might discourage portfolio raiding. In fairness to FHA General Counsel Bovard, he has been consistent. He is not at all like the

lieutenant who dressed down the orderly by demanding: "Who told you to put those blankety-blank flowers on the colonel's desk?" When the orderly replied, "The colonel, sir," all the lieutenant could say was, "Aren't they pretty?" Bovard is not like that. He is an experienced real estate, title and mortgage attorney who thoroughly understands the implications of his interpretation of the law, but he definitely

is unable to accept any other interpretation than that described here.

What is the result? Under present circumstances, there is no reason to believe that the old problem of portfolio "raiding" can be controlled by means of the FHA refinancing certificate. If anyone has a solution to the general problem, there is no apparent reason why it should not be applicable to both FHA and conventional mortgages.

The Role of the Banker in the Temporary Financing of FHA's War Housing Program

By MILTON T. MacDONALD

WHENEVER construction mortgages are mentioned, I am reminded of the owner of an apartment house on Riverside Drive. A European potentate was about to land very near the location of this apartment. The owner of the building protested violently and tried to have the place of landing moved either up town or down. One of his friends tried to tell him that he should be honored and asked him the reason for his opposition. "Well," he said, "ordinarily I would be honored but I fear that this particular building won't stand the 21-gun salute."

In the past construction loans have been a big headache to local bankers. From the standpoint of civic pride they felt they should help in the financing of new ratables but it seemed that each time they did so they got into difficulties of one kind or another. In many cases the banker was not only up against a very shrewd combination but to his sorrow he learned that in dealing with that universal commodity, real estate, he perhaps knew a lot less about it than did the other players in the game.

Although some projects did work out successfully, he was often the victim of a super-conspiracy. What the phony architect, the gyp operative builder and the silk stocking appraiser, working in unison, could do to the poor banker was something awful! And if you turned this crew loose in a city which had no published building code, you had something even worse.

The moment the commitment was given and the digging started, the poor banker was in—all the way in—with no way of getting out. At the first sign of trouble, he learned that his conservative 60 per cent loan became a 100 per cent loan. Sorrowfully he spent the rest of his days either taking his licking piece-meal through successive foreclosures and resales, or, if he had the reserves, he could discount his investment by 50 per cent and charge the balance off to experience. No wonder the supervisory banking authorities looked askance, criticized and often charged down this type of asset!

What then has changed all that and why can the banker lend successfully in 1943 and not be subject to the same pitfalls which were prevalent in the lush Twenties? Aren't the same pernicious influences still at work? Is not that same aura of mystery about the cost of building still pervading the atmosphere? All the old questions are still here, but today there is an answer: FHA and mortgage insurance. In my opinion this act is one of the really great pieces of legislation of the 160 odd years of our national existence and that it stacks right up beside such documents as the Declaration of Independence and the Bill of Rights. It gives protection and opportunity to millions of our citizens, and to thousands of our banks, insurance companies and building and loans. Once and for all it has scuttled the abuses that have plagued us for generations.

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What has FHA done for me as a commercial banker in financing insured mortgages for you savings bankers, insurance companies, building and loans, and other investors?

FIRST: FHA is my credit department. It separates the sheep from the goats and issues commitments only to those builders qualified financially and by experience to complete the projects. Not only that, but in these times of shortages of critical materials, this Agency, working in conjunction with the WPB, furnishes reasonable priorities for the completion of defense housing for war workers.

SECOND: FHA gives me a qualified appraisal service and an excellent architectural and plot-planning service. These entail considerable investigation as to the need of the development and the best layout or type of building for each proposed location.

THIRD: FHA furnishes me with a periodic inspection service which not only covers the physical progress of the building but also approves the quality of construction as well as the adequacy of the utility installations, the grading and of the streets.

FOURTH: Upon completion, not only does FHA give me a final clearance that the building has been completed in accordance with the approved plans and specifications but my bond is also stamped for insurance. This practically guarantees my investment against loss. In some types of construction loans I don't even have to wait for the building to be completed as each advance on the mortgage is 99 per cent insured prior to the disbursement of the bank's funds.

None of these services were available to the banker in the Twenties—no wonder they ganged up on him. No matter how meticulous he was in trying to keep ahead of the builder, he ended up behind the 8-ball. He didn't know his 60 per cent loan was a 100 per center.

With the FHA we know that our 90 per cent loan is a 90 per cent loan.

Representatives of the secondary market for these mortgages also know that they are 90 per cent loans; and still you are bidding to buy them because you know that, on a yield basis, they are the best investment medium for your long-term funds. You know that they are not a frozen asset as mortgages were

in the "not-so-good" old days. You also know that in case of default and foreclosure, you won't have to operate the underlying properties as real estate and you won't have to set them up in the asset column of your statements as Other Real Estate.

In carrying out this temporary financing program of FHA housing, I have one basic requirement and this is extremely important. In every project I must have a partner. All my partners are members of your Association and they are all approved FHA mortgagees. They produce the business; they process the loans; they watch the progress of the buildings; they call for the FHA inspections; they write the hazard insurance; they take care of all the legal and title detail and they get the loans insured upon completion. Then they sell and transfer the insured mortgages to the ultimate buyer and finally they will service them, or at least I hope they will.

Next to FHA itself, these partners are the important cog in the wheel. They must be reputable, experienced and successful. Their judgment must be sound and their loyalty unquestionable. They must endorse the code of ethics of MBA. They are not only responsible representatives of FHA but

they are worthy emissaries of my institution.

My partners, during the past three years, have produced more than thirty million dollars of FHA loans of all kinds, all of which have been financed by my bank. Today we are filling some sizable orders for the secondary market—a million for a New Jersey life insurance company, a million for a Connecticut life company, five millions for two mutual savings banks and a quarter of a million for a fire insurance company, to say nothing of the persistent small demands from fraternal organizations, trust companies and other investing institutions.

We must continue to finance the war housing program as a great and necessary part of the war effort. Whether we are mortgage men, insurance men or bankers, we must not fail to give our time, effort and money to see that this program is produced and completed by private capital and enterprise.

If the time ever comes when FHA has to go to Henry Morgenthau for construction funds, I am not at all sure that we will be allowed to participate in the financing of that tremendous potential volume of new housing of the post war period.

OPA Ought to Allow a 5% Increase in Rent Ceiling for Upkeep Cost

By HARRY A. TAYLOR

THE entire future of the investment property, temporarily at least, is bound up in rent control. It is a war measure and, as such, is acceptable. We all recognize that in order to prevent inflation, for the protection of families of men in the armed forces, and to provide living accommodations for defense workers at rentals that are not exorbitant, it was necessary that some legislation of this kind be enacted.

Is rent control working? Of course, it is, just as any measure for the furtherance of our war effort is receiving the co-operation of our people. There have been some disorders precipitated by rent control and I cannot help but feel

that some practical changes, looking towards a more equitable arrangement, should be made.

In general, the rent rate as of October 1, 1940, if it is not the same, so nearly approximates that of October 1, 1939 (and even as far back as 1938), that the rate at which rents were frozen is, in reality, a date of *two and a half or three years ago!* It cannot be denied that the depression price of space still controlled the price in 1940. This being so, the effect has been definitely unfair to the owner of real estate. Had he not been most frugal he would have faced the possible loss, through foreclosure, of his property. Because of scarcity of space his usual normal vacancy has been

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CHARLES A. MULLENIX.....President
HEROLD G. WOODRUFF.....Vice President
GEORGE H. PATTERSON.....Secretary-Treasurer

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OPA OUGHT TO —

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taken up, so that today properties in critical areas are 100 per cent rented. That 10 per cent of the income that you would normally allow in the computation of any economic set-up does not, for the time being, exist, and the 10 per cent is available to the owner for the maintenance and operation.

I quarrel very definitely with OPA because I believe they are making a mistake in their attitude toward this question. The people of America are conforming to the regulation cheerfully but they do want to do some thinking for themselves and would like to have OPA take some advice from the people who are being regimented. OPA ought to shake itself loose from its single attitude of a frozen rent situation and give some consideration to mounting costs. OPA holds that it has had operation cost surveys made throughout the country showing that the earning position of landlords, generally, is as good now as it was before the impact of defense activities and war upon our economy. They believe no group in the nation should ask more than that now. If this is so, it is only because owners are restricting normal expenses in operating their buildings. Costs of materials and labor have been spiralling and with rents frozen it is a complete fallacy to say that owners are operating their buildings in a normal manner and that the economic structure has not suffered in any way. It is absurd, in my opinion, to state that the earning position of the

landlord is as good today as it was before the Price Control Act became law. What has taken place is nothing more or less than frugality on the part of the owners in making expenditures in order to mould a ring of safety around their properties.

There must be, if all interests are to be safeguarded, an increase of at least 5 per cent of the present rent ceiling with the understanding that it will be applicable to the upkeep of the building. This will forestall more rapid depreciation than normal and reduce to a minimum the obsolescence that would otherwise take place at an accelerated rate. It can hardly be denied that the dollar has a purchasing power today of 80¢ and less and that rents are frozen universally at less than 1½ per cent increase. Actually they are frozen at pre-war or depression levels with hardly any increase since 1938. Detroit, Cleveland, and many cities claim this to be a fact,—in some places even tenants admit rents are too low!

MBA IN THE WAR

Lt. (j.g.) Herbert V. Jones, Jr., son of Herbert V. Jones of Kansas City, is now with the Navy stationed in Miami.

Stuart C. Frazier, executive vice president, Washington Mutual Savings Bank, Seattle, has been commissioned a first lieutenant in the Marine Corps. He is now in Quantico.

R. M. Hurd, Jr., Teachers Insurance and Annuity Association of America, New York, is now in the Navy.

John Allan Love, chairman of the board of Income Investment Co., Clayton, Mo., who was for some time administrator of all rationing boards in St. Louis County, is now vice chairman of the local Victory Fund Committee. He is also an air raid warden and member of the executive committee of the OCD of St. Louis County.

275 AT N. Y. CLINIC

The New York Clinic in January was one of the largest MBA has sponsored since this type of regional meeting was inaugurated in 190. Attendance was 275 from 55 cities in 20 states. New Jersey led in number of cities represented with 15 followed by New York with 9.

This regulation is too drastic and must, if fairness is to prevail, give a universal increase over the present rent ceiling of this 5 per cent. The tenants' welfare must be considered; the OPA has taken care of that, not only in the rent ceiling but in the regulations of evictions and restrictions on the sale of rented homes. We must recognize that more than one half of the population of our country are tenants, who therefore, must of necessity receive prime consideration.

The situation is not altogether black. There can be no question but that rent control has silenced inflation and given an automatic stabilization to the rental situation. In my judgment, it has not affected (except perhaps to intensify it somewhat) the market and the marketability of property. We can always expect sound mortgage conditions when we have marketability and we have it today, have had it for the past five years and we will continue to have a good sound market.

Rent control has accomplished a sensible price standardization as against what would surely have happened—inflation. If a price ceiling had not been placed into effect profiteering vultures would have swooped down and carried realty values off in their claws. A disastrous and frantic selling and purchasing market, that would have left in its wake nothing but disappointment, chaos and destruction, would have been the result. We would have seen the great money lending institutions again shying away from loaning on real estate.

These observations would not be complete without some reference to taxes. If we must have rent control and if we wish to complete the entire picture (having soundness as its frame) we must insist that taxes be limited.

Finally, there should be some instrumentality for the granting of deserving concessions in deserving areas. The idea that a national plan can fit every community is nonsense. What we need are simple rules and a bit of flexibility in their local application, and an understanding on the part of OPA officials and employees based upon practical experience in order that a fairer consideration be given to the regulations.

BUY WAR BONDS

SURVEY SHOWS AMPLE WAR HOUSING FUNDS

There are plenty of private funds all over the country available for financing further war housing, according to our recent survey. With a large majority of our members participating, the results show that nearly 84 per cent say there are plenty of private funds for financing FHA Title VI construction loans while only 16 per cent said there was some scarcity of money in their communities.

As for permanent FHA Title VI financing, over 96 per cent of the Association's members participating in the poll said ample funds were available while about 4 per cent said they were not as far as their own communities were concerned.

President Charles A. Mullenix said he believed the results constituted an effective answer to certain contentions of the "public housers."

Immediately after the results were tabulated, they were presented to Abner H. Ferguson, FHA Commissioner, who has acknowledged with thanks our efforts in making the study.

In all seven geographical sections of the country, ample private funds are available, the survey indicates. As to the principal sources of these funds, insurance companies and banks and trust companies were far in the lead, although, as Mullenix pointed out, this is not a complete picture because it reflects very little of the present status of savings and loan associations. Very few of these institutions are Association members and hence their views are only slightly reflected in the data.

As far as funds being available for permanent FHA Title VI financing there is no lack of money anywhere in the country. As for FHA Title VI construction loans, however, the section where there seemed to be some lack of funds was the Eastern states of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, Pennsylvania, New Jersey, Delaware, Maryland, West Virginia, Virginia and the District of Columbia. In these states a third of those participating said there was some scarcity of construction loan money. Only in one other section—the south central states of Missouri, Oklahoma, Texas, Arkansas and Louisiana—was a similar trend noted.

President's Report to the Membership

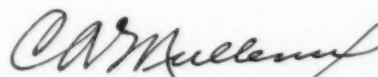
I have had the pleasure of attending all the MBA Clinics but two since the first one in 1939—and each one has been an improvement over the previous one.

This was also true at New York on January 13th and 14th, where an attendance of 275 indicated the mounting interest in problems of wartime operation and postwar opportunities. Another evidence of interest is the increasing number of new membership applications, many of which come direct by mail. *To date, more applications have been received than in any previous year.*

The effectiveness of the Association in protecting private mortgage business for the future is definitely tied to increased influence of larger membership and the resulting increase in budget. This is more vital to every mortgage banker than ever before—and this is a call to every present member to secure a new application to be presented to the next Board of Governors meeting on February 25, 1943. Applications should reach the office in Chicago by February 23rd, if possible.

There is considerable discussion in the public press about liquidation of HOLC. We have not entered into this discussion publicly because there are certain ramifications which have not been made clear to us. A visit to Washington on February 4th and 5th may clear up the questionable points and we shall then hope to make an announcement possibly in New York on February 6th, when I am scheduled to address the annual banquet of the Real Estate Board of New York.

I am most grateful for the support being received from our official family this year. In attendance at the New York Clinic there were our Vice President, three Regional Vice Presidents, our General Counsel, five Past Presidents, seven Board members, ten committee chairmen—and our Secretary and Treasurer.



January 25, 1943

BUY WAR BONDS

